

## SUBCOMMITTEE NO. 4

## Agenda

Senator Mike Machado, Chair  
Senator Robert Dutton  
Senator Christine Kehoe



Wednesday, May 9, 2007  
9:30 a.m.  
Room 113

Consultant: Bryan Ehlers

### “B” AGENDA

<u>Item Number and Title</u>	<u>Page</u>
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#### ***Vote-Only Items***

0860	State Board of Equalization.....	2
0954	Scholarshare Investment Board.....	2
0968	California Tax Credit Allocation Committee.....	3
CS 11.00	EDP/Information Technology Reporting Requirements .....	3
CS 11.10	Reporting of Statewide Software License Agreements .....	3
CS 12.00	State Appropriations Limit .....	4
CS 35.50	Estimated General Fund Revenue pursuant to ACA 5 of the 2003- 04 Fifth Extraordinary Session .....	4

#### ***Discussion Items***

0502	Office of the Chief Information Officer .....	5
0840	State Controller .....	7
0950	State Treasurer's Office.....	12

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## Departments with Issues Proposed for Vote-only

### 0860 Board of Equalization

**1. Board of Equalization (BOE) – Individual Rate Building.** The BOE proposes to set up and fund the BOE building located at 450 N Street, Sacramento as an Individual Rate Building, under Department of General Services (DGS) management, and requests an augmentation of \$524,000 (including \$300,000 General Fund) to fund recurring maintenance and utilities not currently included in the budget. The BOE will reimburse the DGS for all costs associated with the operation and maintenance of the building.

**Staff Comments:** In addition to annual building maintenance, this request would fund increased costs for a new elevator contract. Under the existing contract, the BOE building experienced frequent and prolonged elevator service outages.

**Staff Recommendation:** APPROVE the request.

### 0954 Scholarshare Investment Board

**1. April Finance Letter: Scholarshare Workload.** The Scholarshare Insurance Board (SIB) requests \$221,000, with \$216,000 ongoing (Scholarshare Administrative Fund), and 1.0 permanent position and transfer of 1.0 General-funded position (from the Governor's Scholarship Programs) to address increased complexity and greater volume of workload in Scholarshare regulation. The SIB indicates Scholarshare is one of the largest 529 college savings programs in the country, with over \$2 billion in assets, and faces increasing requirements under the Securities Exchange Act and Municipal Securities Rulemaking Board regulation.

**Staff Comments:** This proposal represents an ongoing General Fund savings of \$108,000.

**Staff Recommendation:** APPROVE the request.

**2. April Finance Letter: Reduce General Fund Available for the Governor's Scholarship Programs.** The Administration requests the \$2.0 million General Fund funding scored in 2006-07 and 2007-08 per Education Code 69999.7 be eliminated to reflect savings in current year and budget year (for a total of \$4.0 million). This funding was originally scored as an estimate of possible General Fund transfers to the Governor's Scholarship Programs pursuant to the code section above, but the programs were eliminated in 2002-03 and the transfers are not anticipated to be necessary.

**Staff Recommendation:** APPROVE the request to reflect a one-time General Fund savings of \$2.0 million.

## **0968 California Tax Credit Allocation Committee**

**1. April Finance Letter: Compliance Monitoring Increase.** The California Tax Credit Allocation Committee (CTCAC) requests 3.0 permanent positions and \$620,000 (Occupancy Compliance Monitoring Account) to meet federal compliance and monitoring requirements mandated by the Federal Internal Revenue Code. Of the requested amount, \$325,000 is ongoing, while the remainder is one-time, including funding for a Professional Compliance contractor.

**Staff Comments:** The workload analysis provided by the CTCAC indicates 11.0 positions are justified to meet federal compliance and monitoring requirements; however, a consultant is being hired to perform a full workload study. In the interim, the Administration proposes to use a compliance monitoring contractor to address the federal mandates, while a more thorough-going workload analysis is completed.

**Staff Recommendation:** APPROVE the request.

### **Control Section 11.00 EDP/Information Technology Reporting Requirements**

**1. Revise Language to Require Director of Finance Approval for Information Technology (IT) Projects.** The Administration altered this control section to reflect its proposal to move the Office of Technology Review, Oversight, and Security (OTROS) to the Office of the Chief Information Officer. The control section needs to be revised to reflect the Subcommittee's intent that OTROS remain under the Department of Finance (DOF) and that IT projects therefore require DOF approval.

**Staff Comments:** The revised control section language will conform to the Budget Act of 2006. Staff will request the DOF to mark-up the language and circulate it to legislative staff for approval.

**Staff Recommendation:** APPROVE revision of the control section.

### **Control Section 11.10 Reporting of Statewide Software License Agreements**

**1. Revise Language to Require Director of Finance Approval for Statewide Software License Agreements.** As with Control Section 11.00 (above), the Administration altered this control section to reflect its proposal to move the Office of Technology Review, Oversight, and Security (OTROS) to the Office of the Chief Information Officer. The control section needs to be revised to reflect the Subcommittee's intent that OTROS remain under the Department of Finance (DOF) and that statewide software license agreements therefore require DOF approval.

**Staff Comments:** The revised control section language will conform to the Budget Act of 2006. Staff will request the DOF to mark-up the language and circulate it to legislative staff for approval.

**Staff Recommendation:** APPROVE revision of the control section.

## **Control Section 12.00 State Appropriations Limit**

This annual Budget Control Section establishes the amount of the State Appropriations Limit for the fiscal year of the budget. Because the final calculation of the limit for 2007-08 must be consistent with the final budget adopted in Conference Committee, action must be taken to place this section in Conference.

**Staff Comments:** The Assembly reduced this item by \$1 million. Therefore, the Senate should approve the item as budgeted to place the control section in Conference.

**Staff Recommendation:** APPROVE as budgeted.

## **Control Section 35.50 Estimated General Fund Revenue pursuant to ACA 5 of the 2003-04 Fifth Extraordinary Session**

This annual Budget Control Section establishes the General Fund revenue estimate on which the budget is based for the purposes of the balanced-budget requirement of Proposition 58. Because the final revenue estimate for 2007-08 must be consistent with the final budget adopted in Conference Committee, action must be taken to place this section in Conference.

**Staff Comments:** The Assembly reduced this item by \$1 million. Therefore, the Senate should approve the item as budgeted to place the control section in Conference.

**Staff Recommendation:** APPROVE as budgeted.

**STAFF RECOMMENDATION ON VOTE-ONLY ISSUES:** APPROVE all vote-only issues.

**VOTE:**

## Departments with Issues Proposed for Discussion

### 0502 Office of the Chief Information Officer

The Administration requests 49.0 positions and \$7.8 million (Department of Technology Services Revolving Fund) to establish a centralized information technology (IT) management department and ensure that project specific activities are coordinated with other departments and reflect the state's policies and direction for IT development.

This request stems from the passage of Chapter 533, Statutes of 2006 (SB 834, Figueroa), which established an Office of the Chief Information Officer (OCIO) and proscribed duties including: (1) advising the Governor on IT issues; (2) minimizing overlap and redundancy of state IT operations; (3) coordinating the activities of agency information officers; (4) advancing organizational maturity and capacity in IT management; and (5) establishing performance measures for IT systems and services.

**Staff Comments:** At a previous hearing, the Subcommittee held a wide-ranging discussion on the OCIO proposal, where the LAO and members raised concerns with the Administration's plan, but all parties aimed their attention at identifying the proper structure for statewide IT planning, approval, oversight, and security. Ultimately, the issue was held open, and in the intervening weeks, actions taken on related budget items have changed the context of the discussion somewhat.

As originally envisioned in the Governor's Budget, the OCIO was to incorporate the project oversight and review function of the Department of Finance's (DOF) Office of Technology Review, Oversight, and Security (OTROS), with 26.0 positions in OTROS shifting to the OCIO to continue their project oversight and review activities. However, subsequent to the previous hearing on the OCIO, this Subcommittee approved (as part of an action on the DOF budget) an LAO recommendation to deny the OTROS transfer and to shift security responsibility from the Secretary of State and Consumer Affairs to the OCIO.

The LAO now has a conforming recommendation on this proposal. Specifically, the LAO recommends: (1) reducing the number of new positions to 19.0 and eliminating a management layer (see Appendix A for an organization chart); (2) leaving IT oversight at DOF so that it remains independent of IT policy and planning; and (3) placing Information Security at the OCIO so that it is independent of the large IT organizations within the State & Consumer Agency similar to Department of Technology Services and Franchise Tax Board.

The LAO also recommends that the Legislature establish budget bill language requiring the OCIO to deliver by March 1, 2008, a five-year project plan for achieving the Administration's stated direction of improving the state's IT effectiveness. The project plan should include a timeline, milestones, and well-defined deliverables which should include but not be limited to the following:

- A minimum set of qualifications for state IT project managers and a process to "certify" managers to this skill level before they assume a project leadership assignment. In addition to IT project management

skills, these must include the state's budgeting and contracting processes.

- A process for identifying and applying current technologies to enable data sharing across state systems as a means to reduce state business and IT process redundancy and inefficiencies. The current effort underway to automate data sharing across the tax agencies (FTB, BOE, EDD) may be used by the OCIO as a pilot to identify lessons learned for this deliverable.

Staff notes that the LAO recommendation would provide adequate staffing for the OCIO to begin assumption of statewide IT planning duties, but at a net savings to the state of roughly \$1.4 million relative to the Governor's Budget. (The \$3.3 million to fund OTROS would simply be moved back to the DOF budget.)

**Staff Recommendation:** APPROVE the LAO recommendation and provide 19.0 positions and \$3.5 million for the OCIO.

## 0840 State Controller

The State Controller is the Chief Financial Officer of the state. The primary functions of the State Controller's Office (SCO) are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and to administer the Unclaimed Property and Property Tax Postponement Programs. The Governor's budget funds 1,234.5 positions (including 136.4 new positions) and \$172 million in expenditures.

### **VOTE-ONLY ISSUES:**

**1. April Finance Letter: Postage Rate Increase.** The SCO requests a baseline augmentation of \$422,000 (\$110,000 General Fund and \$312,000 in reimbursement authority) to cover the increase in postage rates effective May 14, 2007.

**Staff Comments:** During the 2007-08 budget development process, all state departments received a "price increase," which included partial funding for the impending federal postage rate increase. The SCO received an additional \$327,000 for postage as part of this adjustment; however, the SCO now indicates that the actual increase will be \$749,000 (the full magnitude of the increase was not known in the fall). The SCO now requests a budget augmentation to reflect the difference—\$422,000—because the increased costs cannot be absorbed within existing resources without interruption or degradation of other SCO mission-critical programs.

**2. April Finance Letter: Cannery Business Park Final Lease Costs.** The SCO requests a baseline increase of \$913,000 (\$558,000 General Fund; \$64,000 various Special Funds; and \$291,000 reimbursement authority) to pay for annual increased lease costs for the SCO's Cannery Business Park (CBP) Office in Sacramento.

**3. Proposed Budget Bill Language for the Cannery Business Park Final Lease Costs.** Because the final lease Cannery Business Park lease price is still under negotiation, the Administration proposes the following language provide the flexibility to fund the final cost:

*Notwithstanding any other provision of law, the Director of Finance may authorize increases or decreases in expenditures for this item to reflect the final lease costs for the Cannery Business Park location of the State Controller's Office. The Director of Finance may authorize expenditure adjustments per this provision not sooner than 30 days after notification in writing of the necessity therefore is provided to the chairpersons of the fiscal committee and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the committee, or his or her designee, may in each instance determine.*

**4. April Finance Letter: Unclaimed Property System Replacement Project.** The SCO requests: (1) restoration of 3.2 positions for a one-year limited-term; (2) \$402,000

one-time General Fund to support the requested staff (\$261,000) and fund previously unidentified costs (\$141,000); and (3) reappropriation in 2007-08 of approximately \$831,000 that is expected to go unexpended in 2006-07 because of project delays.

**Staff Comments:** This proposal stems from an approved Special Project Report for the Unclaimed Property System Replacement Project that reflects adjustments necessary due to a delay in procuring the primary vendor contract and several new costs (totaling \$111,000 and including bar code equipment, additional switches, and increased bandwidth to support the system). This request also includes proposed reappropriation language.

**STAFF RECOMMENDATION ON VOTE-ONLY ISSUES 1 through 4:** APPROVE the requests (including proposed reappropriation language).

**VOTE:**

***DISCUSSION ISSUES:***

**1. BCP: Mandate Auditors: Conversion of Limited-Term to Permanent.** The SCO requests \$999,000 General Fund to make 11.0 expiring limited-term positions permanent. In 2005-06 the Senate augmented the SCO budget by \$996,000 and 11 positions to analyze older mandate cost claims that were approaching the end of the statute of limitations for initiating claims audits. For every \$1 spent on these audit efforts, the mandate claim auditors have identified approximately \$17 in over-claimed costs.

**Staff Comments:** At a previous hearing, the Chair requested the SCO to provide an analysis of the estimated benefits and costs of adding additional mandate auditors to this request. In response, the SCO provided the following table.

Positions	Audited Costs	Unallowable Costs	Error Rate	Salary Costs	Recovery Ratio
5	\$25 Million	\$6,357,260	25%	\$454,090	\$14 to \$1
10	\$45 Million	\$10,898,160	24%	\$908,180	\$12 to \$1
15	\$60 Million	\$13,622,700	23%	\$1,362,270	\$10 to \$1

As noted previously, this request should be considered within the larger discussion of mandate reform in which the state is attempting to streamline the mandate process and reduce the number of mandate over-claims submitted in the first place. However, should the Subcommittee wish to approach the current level of over-claims more aggressively, the table above shows that additional General Fund could be invested in more mandate auditors to identify additional unallowable costs, although staff notes that the recovery-to-cost ratio would decline as the number of staff added increases (a diminishing rate of return on investment). The Subcommittee may wish to weigh this information in determining what level of mandate audits constitutes sound state policy.

**Staff Recommendation:** APPROVE as budgeted.

**VOTE:**



**2. BCP: Resources for the California Automated Travel Reimbursement System's (CalATERS) Statewide Rollout.** The SCO requests \$517,000 (reimbursements) and 5.0 positions to implement a statewide rollout of the CalATERS, an automated travel expense processing system that is expected to result in significant process and cost efficiencies. Staff will train agencies, monitor and maintain systems, and support the Department of Technology Services with transactions associated with rollout.

**Staff Comments:** As was discussed at a previous hearing, under existing statute, departments retain the authority not to institute CalATERS if they convince DOF that they need an exemption. The Chair noted concern that estimated project savings could be impacted significantly depending on the number and size of the departments seeking exemptions, and requested the SCO to report back on the potential effects of exemptions. The SCO submitted the following response:

*At this time, Caltrans is the only department that has requested an exemption. Two other very small departments have submitted exemption requests and their impact has not been estimated due to the limited number of claims the organizations are processing. The impact on the statewide CalATERS savings without Caltrans' participation is calculated using the data collected from the original CalATERS study. This study was performed in 1995 documenting the manual processes used by departments to issue travel advances and reimburse employees for business travel expenses. The study also projected annual statewide savings under an automated process of \$7.8 million of which \$3.1 is hard savings and \$4.7 soft savings.*

*Caltrans was one of eight departments that participated in the 1995 study. Based on Caltrans' estimated annual number of travel advances and travel expenses processed, the study projected their savings at approximately \$800,000 per year (\$300,000 hard savings and \$500,000 soft savings). This represents approximately 10.5% of the estimated statewide savings figure. Also, the savings were projected using 1995 salaries and would need to be adjusted to reflect current salaries.*

As previously noted, there will be a process for revisiting exemptions and re-evaluating their benefit-cost to the state at a later date. The SCO indicates that the long-term plan is to bring all state agencies under the CalATERS system. Departments have until July 1, 2007, to request an exemption. As of May 7, no additional departments besides the three already mentioned have requested an exemption; however, the Subcommittee may wish to adopt provisional language to make the requested authority contingent upon a limited loss of projected savings stemming from exemptions (for example, 20 percent). Should the total projected loss in savings resulting from exemptions exceed this threshold, the approval of this requested authority would be voided.

**Staff Recommendation:** APPROVE as budgeted with Budget Bill Language as described above (with details to be worked out by staff, LAO, and the department).

**VOTE:**

**3. BCP: Salary Increase for Staff Management Auditors.** The SCO requests \$224,000 (\$106,000 General Fund) to support a five percent salary increase for the Staff Management Auditor (Specialist). The SCO has experienced significant recruitment and retention problems because of unfavorable Staff Management Auditor salary comparisons between the SCO and other state and local agencies.

**Staff Comments:** This issue was heard previously and the Chair requested the SCO to continue to update staff on the progress of conversations between the SCO and the Department of Personnel Administration (DPA). As of April 27, 2007, the SCO reported the following:

*As of this writing, DPA has indicated their approval for this pay increase is predicated on two things: (1) Funding confirmation from other departments. SCO has granted permission for a handful of departments to use its unique Staff Management Auditor (Specialist) classification. If a pay increase is granted for this classification, DPA needed assurance that those affected departments could afford to pay the increase in salary. On April 24, 2007, SCO confirmed that all departments using SCO's Staff Management Auditor (Specialist) classification had formally responded to DPA that they can fund the increase within their existing budgets. (2) Union approval. Once the funding confirmations from other departments were received, then DPA could notice the union of the proposed increase in salary for the Staff Management Auditor (Specialist). SCO does not anticipate the union will deny the pay increase.*

Based on the information provided above, it appears likely the DPA will fully approve the SCO's request.

**Staff Recommendation:** APPROVE as budgeted.

**VOTE:**

**4. April Finance Letter: Cancellation of Bank Reconciliation (BankRec) System Replacement Project.** The SCO proposes to defer the BankRec System Replacement Project, revert \$710,000 in 2006-07 (\$308,000 General Fund and \$402,000 reimbursement authority), and reduce its 2007-08 budget by \$248,000 (\$107,000 General Fund and \$141,000 reimbursement authority).

**Staff Comments:** The SCO's Bank Reconciliation is a critical business function that reconciles the status of warrants issued by the SCO and cashed by the State Treasurer's Office, and is an important tool in determining the State's cash flow needs. The Budget Act of 2006 provided funding to replace the existing legacy BankRec IDMS System with newer technology. However, the current request to defer the replacement project arose out of the loss of key staff and the emergence of the FI\$Cal project, which, as proposed, contains a bank reconciliation function. Although, the FI\$Cal project was denied by this Subcommittee subsequent to the submission of this request, the SCO now indicates that the BankRec System Replacement Project cost estimates also exceed the amount appropriated.

According to the SCO, the only work completed on the BankRec replacement was planning and market research and no project dollars were spent. To date, all work has

ceased and staff have returned to supporting delayed maintenance and operation tasks for the existing legacy systems. The SCO additionally indicates that the department would likely come back with a future Budget Change Proposal (BCP) to fund BankRec replacement should the FI\$Cal project ultimately fail to receive funding in the Budget Act of 2007.

Staff notes that this Finance Letter includes proposed reversion language.

**Staff Recommendation:** APPROVE the request (including the proposed reversion language).

**VOTE:**

## 0950 State Treasurer's Office

The State Treasurer, a constitutionally established office, provides banking services for State government with the goals of minimizing interest and service costs, and maximizing yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the State; investment of temporarily idle State monies; administration of the sale of State bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other State agencies.

The Governor's budget funds 226.6 positions (with 4.0 new positions) and expenditures of \$24.4 million (\$6.6 General Fund).

### **1. April Finance Letter: Expanded General Obligation Bond Program Workload.**

The STO requests 4.0 permanent positions and \$421,000 in reimbursement authority to address increased workload and complexity associated with issuance and refunding of general obligation (GO) bonds. Voters recently approved five new GO Bond measures totaling \$42.7 billion.

**Staff Comments:** The STO anticipates average annual GO Bond sales will increase significantly beginning in 2007-08 from an average of approximately \$4.5 billion per year over the last 4-5 years, to an average of approximately \$10 billion per year over the next 4-5 years. The STO's request for additional positions is based on the increased number and size of sales, as well as an expected increase in related interim financing and tax compliance activity.

While the STO makes a compelling case that doubling the amount of GO Bond indebtedness sold each year will require additional personnel, the STO does not provide a compelling workload analysis to support the request for 4.0 staff (as opposed to more or fewer). The Subcommittee may wish to consider approving the positions on a limited-term basis with the expectation that the STO return in the future with a more thorough-going workload analysis.

**Staff Recommendation:** APPROVE the 4.0 requested positions, but on a two-year limited-term basis.

**VOTE:**